

Message Text

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SUBJECT: FINLAND'S NATIONAL BUDGET FOR 1975

REF: HELSINKI 2416, SEPT. 12, 1973

1. SUMMARY. FINLAND'S BUDGET BILL FOR 1975 IS LAID BEFORE PARLIAMENT, WHERE DEBATE ON IT WILL BEGIN ON SEPTEMBER 25. IT IS AN UNSENSATIONAL BUDGET OF FEW SURPRISES AND WOULD PROVE TO BE MILDLY DEFLATIONARY IN THE UNLIKELY EVENT THAT GOVERNMENT DID NOT INCREASE EXPEDITURES BY SUPPLEMENTARY BUDGETS DURING 1975. CONFIRMATION BY GOVERNMENT THAT IDEA OF REVALUATION OF FINNMARK HAS BEEN DROPPED IS WELCOMED BY INDUSTRY, ESPECIALLY IN EXPORT SECTOR. NEW INDUSTRIAL INVESTMENT FUND IS CRITICIZED AS GIVING GOVERNMENT EVEN MORE CONTROL OF DOMESTIC CAPITAL MARKET. END SUMMARY.

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2. FINLAND'S NATIONAL BUDGET FOR 1975 (THE FISCAL YEAR

COINCIDES WITH THE CALENDAR YEAR) WAS SUBMITTED TO PARLIAMENT ON SEPTEMBER 13. EXPENDITURES PROPOSED IN THE BILL TOTAL FMK 21,734 MILLION, 26.3 PER CENT HIGHER THAN ORIGINAL 1974 BUDGET. HOWEVER, UNDER FOUR SUPPLEMENTARY BUDGETS, ACTUAL CASH EXPENDITURES IN 1974 ARE EXPECTED TO REACH ABOUT FMK. 20 BILLION, SO INCREASE OF DRAFT 1975 BUDGET OVER 1974 EXPENDITURE WILL BE ONLY ABOUT 9 PERCENT. ON THE FACE OF IT, IF CONSUMER PRICES NEXT YEAR RISE BY PREDICTED 11.5 PERCENT, NEXT YEAR'S BUDGET REPRESENTS SLIGHT REDUCTION OF REAL EXPENDITURE AND WILL BE DEFATIONARY. BUDGET, HOWEVER, IS ALMOST CERTAIN TO BE AMENDED BY SUPPLEMENTARY BUDGETS CALLING FOR ADDITIONAL EXPENDITURE IN AMOUNTS NOT NOW PREDICTABLE.

3. FINANCE MINISTER JOHANNES VIROLAINEN DESCRIBED PROPOSED BUDGET AS "FRUGAL" ONE BUT ADDED THAT GOVERNMENT'S POWER TO LIMIT EXPENDITURES IS LIMITED BECAUSE SO MANY EXPENDITURES ARE STATUTORILY REQUIRED OR ARE PART OF THE CURRENTLY EFFECTIVE INCOMES POLICY SETTLEMENT. MAIN REASON NEW BUDGET IS HIGHER THAN LAST YEAR IS RISING PRICES AND OTHER COSTS. HOWEVER, CERTAIN NEW PROJECTS AND GOVERNMENT PLANS HAVE BEEN PUT OFF. OTHER ITEMS, SUCH AS FUNDS FOR REFORMS OF BASIC SCHOOL SYSTEM AND IMPROVEMENTS IN NATIONAL HEALTH CARE COULD NOT BE POSTPONED.

4. PRIME MINISTER KALEVI SORSA SAID THAT INCREASING PRODUCTION AND EXPORT CAPABILITY AND IMPROVING SUPPLY OF LABOR WERE AMONG MOST IMPORTANT OBJECTIVES OF THIS BUDGET. IN THIS PERIOD WHEN FOREIGN BORROWING IS DIFFICULT AND EXPENSIVE, PUBLIC FUNDS WILL HAVE TO BE USED INCREASINGLY TO FINANCE EXTENSIVE INVESTMENTS NEEDED IN FIELDS OF ENERGY SUPPLY, CERTAIN INDUSTRIAL PROJECTS, ENVIRONMENTAL PROTECTION AND LABOR SAFETY. SORSA ALSO CONFIRMED SOCIAL DEMOCRATIC PARTY'S PROPOSAL FOR REVALUATION OF FINNMARK HAD DEFINITELY BEEN DROPPED BECAUSE OF OPPOSITION OF THE OTHER PARTIES PARTICIPATING IN GOVERNMENT.

5. ALTHOUGH NOT PART OF BUDGET PROPOSAL, GOVERNMENT ANNOUNCED AT SAME TIME PROGRAM TO STIMULATE PRIVATE

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SAVINGS, WHICH PROVIDES FOR HIGHER INTEREST RATE OF 9.5 PER CENT AND TAX RELIEF IN RESPECT TO INTERST EARNINGS.

6. THE NEW BUDGET IS BASED ON A NUMBER OF DECISIONS AND ASSUMPTIONS, MAIN ONES OF WHICH INCLUDE:

A) UPTURN IN BUSINESS CYCLE IS NOT EXPECTED DURING 1975.

B) LOWERING CURRENT HIGH RATE OF INFLATION AND REDUCING CURRENT ACCOUNT BALANCE OF PAYMENTS DEFICIT ARE GOVERNMENT'S PRIME ECONOMIC OBJECTIVES. MEASURES TAKEN TO ATTACK THESE PROBLEMS WILL HAVE TO BE USED WITH CARE TO AVOID RECESSION.

C) GROWTH GDP WILL BE ABOUT 3 PERCENT IN REAL TERMS IN 1975, DOWN ONE-HALF PERCENT FROM 1974 GROWTH.

D) INVESTMENT IN MACHINERY AND EQUIPMENT IN 1975 SHOULD BE UP BY 12 PERCENT IN REAL TERMS OVER 1974 LEVEL, WHICH IN TURN WAS 8 PERCENT HIGHER THAN PREVIOUS YEAR.

E) CONSUMER PRICE INDEX WILL RISE 11.5 PERCENT IN 1975 AS COMPARED TO 1974'S 17 PERCENT.

F) TRADE DEFICIT NEXT YEAR, AT FMK. 4 BILLION, WILL EXCEED THIS YEAR'S FMK. 3.8 BILLION LEVEL.

G) DOMESTIC MONEY MARKET WILL REMAIN TIGHT AT LEAST DURING EARLY MONTHS OF 1975. FINLAND'S NEED FOR FOREIGN BORROWINGS WILL REMAIN HIGH IN 1975 BUT WILL REMAIN DIFFICULT AND EXPENSIVE TO ARRANGE.

H) GENERAL STATE OF ECONOMY WILL NOT IMPROVE MARKEDLY BEFORE 1976, WITH ANOTHER BOOM PERIOD NOT EXPECTED BEFORE 1977-78.

I) HOUSE CONSTRUCTION WILL BE DOWN IN REAL TERMS BY 2 PERCENT IN 1975, COMPARED TO AN INCREASE OF 2 PERCENT IN 1974 OVER PREVIOUS YEAR.

7. THE GOVERNMENT IN INTRODUCTION TO BUDGET BILL SAID UNCLASSIFIED

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IT INTENDS TO HOLD PUBLIC EXPENDITURES TO AN INCREASE OF 2 TO 3 PERCENT ANNUALLY, IN REAL TERMS, FOR NEXT FEW YEARS. THERE WILL BE ALMOST NO INCREASE IN NUMBER OF GOVERNMENT EMPLOYEES.

8. GOVERNMENT WARNED THAT SERIOUSNESS OF DEFICIT IN CURRENT ACCOUNT OF BALANCE OF PAYMENTS MAY REQUIRE "EFFECTIVE MEASURES" (UNDEFINED) TO REDUCE IMPORT DEMAND. IN 1974, VALUE OF IMPORTS OF GOODS AND SERVICES IS EXPECTED TO BE 47 PER CENT ABOVE 1973 LEVEL, WHILE EXPORT VALUE WILL BE UP BY 40 PERCENT. IN 1975 IT IS HOPED TO INCREASE EXPORT VALUE BY 18 PERCENT BUT TO HOLD THE IMPORT INCREASE TO 16 PERCENT.

9. BUDGET AS PRESENTLY PROPOSED WILL HAVE SURPLUS OF

FMK. 800 MILLION OF EXPENDITURES OVER REVENUE. GOVERNMENT PLANS TO COVER SHORTFALL BY DOMESTIC AND FOREIGN LONG-TERM BORROWING.

10. THE GOVERNMENT SUBMITTED THIRD SUPPLEMENTARY BUDGET BILL FOR 1974 AT SAME TIME AS 1975 BUDGET BILL. THIS WILL ESTABLISH AN INDUSTRIAL INVESTMENT FUND, INITIALLY OF FMK. 500 MILLION, FOR INVESTMENTS, EITHER IN GOVERNMENT-OWNED FIRMS OR IN PRIVATELY-OWNED ONES, TO PROMOTE ECONOMIC GROWTH, EMPLOYMENT AND COMPETITIVENESS, ESPECIALLY IN RESPECT TO EXPORTS. SUPPLEMENTARY BILL ALSO WOULD PROVIDE FUNDS TO ESTABLISH TWO STATE-CONTROLLED COMPANIES IN ELECTRONIC FIELD AND TO INCREASE CAPITALIZATION OF SEVERAL EXISTING STATE-OWNED COMPANIES.

11. INITIAL REACTION TO 1975 BUDGET PROPOSAL WAS THAT IT CONTAINED FEW SURPRISES. PRODUCERS FOR EXPORT WERE PLEASED THAT IDEA OF REVALUATION, WHICH WOULD HAVE REDUCED THEIR PROFITS FROM EXPORTS, WAS DROPPED. THERE WAS SOME CRITICISM OF INDUSTRIAL INVESTMENT FUND TO BE SET UP IN ACCORDANCE WITH 1974 SUPPLEMENTARY BUDGET, ON GROUND THAT THIS WOULD INCREASE ALREADY GREAT GOVERNMENT CONTROL OF CAPITAL MOVEMENTS IN FINLAND. SO FAR, REACTION TO DRAFT BUDGET HAS BEEN MUTED.
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